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SUBJECT: COMPLETING SERBIA'S MAJOR INTERNATIONAL HIGHWAYS - CORRIDOR
10

REF: Belgrade 770 and previous

SUMMARY

1. The Serbian government has said that it would need approximately \$2.6 billion to finish Corridor 10, the Pan-European transportation network passing through Serbia. The goal of the new government is to complete Corridor 10 in two to three years with assistance from international financial institutions or state bonds. Mladjan Dinkic, Deputy Prime Minister and Economy and Regional Development Minister, announced that negotiations with the World Bank would occur in September. Serbia's financing efforts could be complicated by Senator Schumer's pressure on the World Bank to hold off on projects in Serbia as a result of the Kovacevic assault case. Corridor 10 is one of the main priorities of the new government. The Corridor 10 strategy includes not only road infrastructure, but also plans for railway lines, telecommunications infrastructure, hotels, gas stations, etc., with the goal of improving the business climate and opening new opportunities for U.S. and foreign investment in and around the Corridor. END SUMMARY.

CORRIDOR 10

2. The most important highways in Serbia are part of the Pan-European Transport (PET) Corridors, which should link Western and Central Europe with the countries of South Europe and the Middle East. Two PET Corridors, Corridor 10 and Corridor 7 (which is actually the Danube River), pass through Serbia. The main route of Corridor 10 is: Salzburg (Austria) - Ljubljana (Slovenia) - Zagreb (Croatia) - Beograd - Nis (Serbia) - Skopje - Veles (Macedonia) - Thessaloniki (Greece), with branches coming from Budapest (Hungary) to Belgrade and from Nis (Serbia) via Sofia (Bulgaria) to Istanbul (Turkey).

PRIORITIES

3. Corridor 10 in Serbia is 792 km long. Completed highway currently consisted of 500km. Miodrag Jocic, former State Secretary at the Ministry of Infrastructure, told us on August 19 that the estimated cost of finishing Corridor 10 was \$2.6 billion. There are three unfinished portions of Corridor 10: the north-bound lanes of the highway from Horgos (Hungarian border) to Novi Sad; two southern spurs from Nis to the Bulgarian border and from Nis to the Macedonian border; and the road ring around Belgrade ("Belgrade bypass").

OBSTACLES AND OPTIMISM

4. Jocic briefly discussed a number of obstacles to realizing the government's infrastructure goals. The election cycle, lack of political will, and bureaucracy all worked to hold up the highway projects. Three major elections in the last year and a half had

distracted politicians and ministers from moving forward on significant infrastructure issues. Since parliament was out of session until September 2, it could not ratify many infrastructure-related laws on the legislative agenda. In addition, Jovic said a "big problem" was the long delay for trucks at border crossings requiring a new visa regime. However, many ministers had to weigh in on the legislation, and the resulting bureaucratic fragmentation was slowing down the entire process.

15. Jovic expressed optimism about the new government's prospects for completing Corridor 10 and the Belgrade Bypass by the end of 2012, noting that some politicians' claims of finishing the work within two to three years were less realistic. The National Council for Infrastructure, a working group of ministers designed to focus on infrastructure projects and chaired by President Tadic, was a "good idea" and could help alleviate administrative bottlenecks and expedite paperwork and planning.

FIGURES AND VALUES

16. Jovic said that construction of the north-bound lanes of the Horgos-Novi Sad highway should start soon since the technical documentation was prepared and \$375 million was available from privatization revenues. The 108 km Horgos-Novi Sad section should cost \$225 million to \$300 million. The southern part of Corridor 10 would be the most expensive and hardest to construct. The 98 km portion from Nis to the Macedonian border was estimated to cost \$900 million. Greece was expected to help with \$150 million. The 84 km spur from Nis to the Bulgarian border would require \$975 million. Dinkic told us in July that he hoped to secure financing through the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the World Bank and other

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sources. In the near term, Dinkic's financing efforts, especially at the World Bank, could be hampered by Senator Schumer's pressure on the Bank to hold off on loans to Serbia while Miladin Kovacevic (reftel), charged with assault in New York, remains at large in Serbia.

17. The Belgrade bypass will redirect the heavy traffic from the center of the city. The 47km bypass was divided into three sections (A, B and C). The EIB and the EBRD approved \$172.5 million for section A. The Serbian Government provided \$45 million for section B from the National Investment Plan in 2008, but needs an additional \$195 million to complete construction. Jovic said that talks on \$300 to \$450 million in financing for section C should start in two or three years.

Comment

18. Corridor 10 is important for attracting greenfield investment and regional development in Serbia, as it would integrate Serbia more deeply with neighboring countries and stimulate commercial activity and new investment in the areas surrounding the highway network. Corridor 10 represents the shortest West-East and North-South connection but it has declined in importance since the sanctions of the 1990s and workarounds that made Romania and Bulgaria increasingly attractive land routes. Finishing Corridor 10 will require the new government to demonstrate its capacity to act rather than just play politics. Completing the Corridor is also a component of the physical foundation, in addition to the legal and regulatory foundation, that Serbia needs to construct if it is to move closer to EU membership. In the meantime, Romania and Bulgaria continue to improve their transport infrastructure, drawing traffic and business away from the more direct Serbian route. End Comment.

MUNTER